

EXECUTIVE SUMMARY
TESTIMONY OF M.L. LAGARDE, III
VICE CHAIRMAN OF THE PARTNERSHIP BOARD AND MANAGING PARTNER OF THE
TULANE UNIVERSITY HOSPITAL AND CLINIC (TULANE)
BEFORE THE
OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
OF THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE
AUGUST 1, 2007

My name is M.L. Lagarde III. I am the Vice Chairman of the Partnership Board and Managing Partner of the Tulane University Hospital and Clinic (“Tulane”). The Partnership Board is the governing body of the Tulane joint venture between Tulane University and HCA. I was directly involved in the evacuation of Tulane’s downtown New Orleans campus during Hurricane Katrina and have been actively involved in the substantial effort and commitment to rebuild and reopen Tulane after it was closed for almost six months as a result of the tremendous damage it sustained. As a result of this effort, Tulane has reopened, and is providing vital medical services in the area directly impacted by Hurricane Katrina.

At the end of August, two years will have passed since Hurricane Katrina pummeled New Orleans. Despite the significant progress in rebuilding hospitals and other critical elements of the healthcare infrastructure, the New Orleans healthcare system has not recovered from the damage inflicted by the Hurricane or the floods that followed in its wake. Since Hurricane Katrina, five hospital systems – Tulane, Touro Infirmary, East Jefferson General Hospital, West Jefferson Medical Center, and Ochsner Health System (the “Coalition”) -- have provided approximately 95% of the healthcare services in the New Orleans metropolitan area. Tulane, along with the State-operated University Hospital, are the only hospitals operating in the downtown area most heavily damaged by the flooding in the aftermath of Katrina.

Tulane’s downtown campus was completely evacuated due to the flooding following Hurricane Katrina. By pursuing an aggressive rebuilding schedule, Tulane was the first hospital to reopen in downtown New Orleans in an area that, prior to Hurricane Katrina, was recognized as the medical district of New Orleans. Tulane’s reopening provided patients in the area with access to essential healthcare services. It also provided critical services and support to the Tulane University Medical School and the United States Department of Veterans Affairs, which rely on and partner with Tulane. Tulane plays a vital role to the recovery of the New Orleans healthcare system, and as a result the New Orleans area, by providing access to critical healthcare services for patients, ensuring access to medical education for future healthcare professionals, enabling physicians, nurses and other healthcare professionals to maintain their

proficiency, and stabilizing the New Orleans medical district to facilitate its rebuilding and recovery. However, without additional funding to offset the unique operating costs facing Tulane in post-Katrina New Orleans, Tulane's ability to maintain these vital contributions is threatened.

Tulane, like the other hospitals in the Coalition, has continued to provide patients with essential healthcare services despite significant challenges including strained resources, damaged infrastructure, and significantly increasing costs, all of which are directly attributed to operating in post-Katrina New Orleans. In particular, the Coalition hospitals are confronted with a critical shortage of doctors, nurses and other healthcare professionals, which has significantly increased their labor costs. In addition, higher insurance and utility expenses, increased bad debt, and sicker patients have substantially increased the costs of operating a hospital in post-Katrina New Orleans. Importantly, these costs are projected to continue to increase for the foreseeable future. As a result, the hospitals in the Coalition are expected to lose a combined \$135 million in 2007. These staggering losses threaten the current and continuing operation of all of the Coalition hospitals.

A vibrant healthcare system is a critical component of New Orleans' short and long term recovery from the devastating impact of Hurricane Katrina. Numerous reports and analyses have all concluded that, to address the area's long term healthcare needs, the hospitals currently operating in New Orleans must remain financially viable and able to address the current healthcare needs of patients in the area. The recovery funds that have been provided by federal and state governments to-date are not adequate to address the unique challenges facing hospitals serving post-Katrina New Orleans. We therefore join the other hospitals in the Coalition to request additional financial support for the next three to five years, including: (i) additional funding to offset losses attributable to post-Katrina expenses; (ii) continuing Louisiana's uncompensated care costs ("UCC") formula; and (iii) eliminating the three year rolling average component of the payment formula for graduate medical education costs.

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Mr. Chairman, members of the Committee and staff – good morning. My name is M.L. Lagarde, III, and I am the Vice Chairman of the Partnership Board and Managing Partner of the Tulane University Hospital and Clinic (“Tulane”). The Partnership Board is the governing body of the Tulane joint venture. The partners are Tulane University and HCA. Through this partnership, Tulane works to continue our tradition of excellence and expertise in providing the best quality care, education and research through our combined resources. For over 160 years, the Tulane University Medical School has demonstrated its dedication and commitment to New Orleans by providing innovative medical education, cutting-edge research and quality clinical services.

As Vice-Chairman of the Partnership Board, I am actively involved in the operations of Tulane. Indeed, I was at the downtown hospital campus during Hurricane Katrina and directly involved in the complete evacuation of all of our patients and employees from the facility. I have also been actively involved in the substantial effort and commitment to rebuild and reopen Tulane in downtown New Orleans after it was closed for almost six months as a result of the

tremendous damage to the facility from Hurricane Katrina. As a result of this effort, Tulane has reopened, providing services in the area directly impacted by Hurricane Katrina.

At the end of August, two years will have passed since Hurricane Katrina pummeled the Louisiana and Mississippi coasts. Despite the significant progress in rebuilding hospitals and other critical elements of the healthcare infrastructure in New Orleans, the New Orleans healthcare system has not recovered from the damage inflicted by the Hurricane or the floods that followed in its wake. Of the nine adult acute care hospitals in Orleans Parish operating prior to Katrina, all remain closed except Tulane, Touro Infirmary and University Hospital. The three hospitals which remained open after Hurricane Katrina in Jefferson Parish are East Jefferson General Hospital, West Jefferson Medical Center, and Ochsner Health System (I refer to the five systems -- Tulane, Touro, East Jefferson, West Jefferson and Ochsner -- currently operating in Orleans and Jefferson Parish as the "Coalition"). Since Hurricane Katrina, the Coalition hospitals have provided approximately 95% of the healthcare services in the immediate New Orleans metropolitan area. Tulane, along with the State-operated University Hospital, are the only two hospitals operating in the downtown area most heavily damaged by the flooding in the aftermath of Katrina.

The hospitals in the Coalition have continued to provide patients with essential healthcare services despite significant challenges including strained resources, damaged infrastructure, and significantly increasing costs, all of which are directly attributed to operating in post-Katrina New Orleans. In particular, the Coalition hospitals are confronted with a critical shortage of doctors, nurses and other healthcare professionals, higher insurance and utility expenses, increased bad debt, and sicker patients. These factors have substantially increased the costs of operating a hospital in post-Katrina New Orleans. Importantly, these increased costs are

projected to continue to increase for the foreseeable future. As a result of the increased expenses, the hospitals in the Coalition are expected to lose a combined \$135 million in 2007. These staggering losses threaten the current and continuing operation of all of the Coalition hospitals.

A vibrant healthcare system is a critical component of New Orleans' short and long term recovery from the devastating impact of Hurricane Katrina. Numerous reports and analyses have all concluded that, in order to address the area's long term healthcare needs by redesigning and building new healthcare infrastructure, the hospitals that are currently operating in New Orleans must remain financially viable and able to address the current healthcare needs of patients in the area. The recovery funds that have been provided by federal and state governments to date are not adequate to address the unique prospective challenges faced by hospitals serving post-Katrina New Orleans. Specifically, of the approximately \$300 million in federal funds that have been distributed for healthcare services, only 13% of these funds have been paid to New Orleans hospitals. In order to address the exceptional cost pressures threatening the New Orleans hospitals, we request additional financial support for the next three to five years, including: (i) provision of additional funding either by redirecting existing appropriation dollars for 2007 – 2009 to New Orleans or identifying other revenue sources, to offset losses attributable to post-Katrina expenses; (ii) continuation, for at least three years, of the current State of Louisiana Department of Health and Hospitals' uncompensated care costs ("UCC") formula; and (iii) elimination, for the next three years, of the three year rolling average component of the payment formula for graduate medical education costs.

Each Coalition hospital serves an essential role in addressing the current and continuing healthcare needs of the area. Tulane's downtown campus had to completely evacuate during the

flooding following the Hurricane because of damages it sustained. Tulane remained closed for six months after Hurricane Katrina in order to rebuild and repair the significant water and mold damage from the flooding. By pursuing an aggressive rebuilding schedule, Tulane was the first hospital to reopen in downtown New Orleans in an area that, prior to Hurricane Katrina, was recognized as the medical district of New Orleans. Tulane's reopening provided patients in the area with access to essential healthcare services. It also provided critical services and support to the Tulane University Medical School and the United States Department of Veterans Affairs, which rely on and partner with Tulane. Tulane plays a vital role to the recovery of the New Orleans healthcare system, and as a result the New Orleans area, by providing access to critical healthcare services for patients, ensuring access to medical education for future healthcare professionals, enabling physicians, nurses and other healthcare professionals to maintain their proficiency, and stabilizing the New Orleans medical district to facilitate its rebuilding and recovery. However, without additional financial support to adequately address the unique operating challenges facing Tulane in post-Katrina New Orleans, Tulane's ability to maintain these vital contributions is threatened. I appreciate the opportunity to come before you this morning to discuss Tulane's experiences, both in terms of the significant services that Tulane is currently providing the New Orleans community as well as the significant financial constraints that are challenging our continued ability to provide these services.

I. TULANE PROVIDES CRITICAL ACCESS TO HEALTHCARE IN DOWNTOWN NEW ORLEANS

Tulane has two facilities in the New Orleans metropolitan area, including our main campus in downtown New Orleans and our secondary campus at Tulane-Lakeside Hospital in Metairie, LA. Between these two campuses, Tulane aims to provide a full range of medical

services to the greater New Orleans area. We were forced to evacuate these two facilities during and following Hurricane Katrina. After local officials ordered a mandatory evacuation, we closed Tulane-Lakeside Hospital and transported patients, employees, and family members to a safe location by bus convoy. Our main campus in downtown New Orleans also sustained heavy damage and had to be evacuated, primarily by helicopter. Hurricane Katrina inflicted heavy damage on Tulane's main campus, and caused damage to the Lakeside campus sufficient to close the facility for thirty days.

Despite the substantial damage to the downtown buildings, Tulane has remained fully committed to providing for its patients in the New Orleans area. Indeed, in the fall of 2005 and early 2006, we undertook an aggressive and costly rebuilding schedule that would permit the downtown campus to reopen as quickly as possible. The goal of our aggressive schedule was to open prior to the Mardi Gras celebration of 2006, which represented an important symbolic and cultural milestone for New Orleans. Because damage sustained from Hurricane Katrina had forced every hospital in the downtown area to close, Mardi Gras presented a pressing need for emergency medical services in the downtown area as revelers in need of emergency medical attention, where time is of the essence, would have had to travel to one of the other hospitals in the greater New Orleans area. We therefore expended significant resources, investing over \$90 million prior to February 2006 alone, to ensure that the hospital was able to at least partially reopen prior to Mardi Gras.

On February 15, 2006, after being closed for almost six months, Tulane reopened its emergency room, several operating rooms, sixty-three of its 235 beds, an adult and pediatric intensive care unit, a pharmacy and several cardiology labs. Tulane reopened in February at about one-fourth of its pre-Katrina size and with about half of its pre-storm staffing. Tulane's

reopening answered one of the city's most urgent needs by making hospital services available again in downtown New Orleans. Since that time we have continued to aggressively repair and reopen the remainder of the Tulane facility in stages.

To date, we have spent more than \$250 million to repair and restore Tulane. We have relied on funds from business interruption and property insurance and our own indebtedness to reestablish Tulane in downtown New Orleans. Although we have requested funds from the Federal Emergency Management Agency ("FEMA"), at this point, we have not received any payments. Currently, Tulane has completely reopened and is operational. Prior to Hurricane Katrina, Tulane's downtown campus was a 235-bed facility. We currently have reopened 206 of these beds. We believe that the money that we have spent to repair and restore Tulane in downtown New Orleans is an important investment in the health of current and future New Orleans residents as well an investment in the recovery of the greater New Orleans area.

The reopening of Tulane is also critical to ensure the long term availability of healthcare services in the New Orleans areas. Due to the closure of Charity Hospital, Tulane has become the primary teaching hospital of the Tulane University Medical School. The availability of this hospital and access to patients is essential to the medical education of medical students, residents and other healthcare professionals who will continue to serve patients in the New Orleans area for years to come. The success of the Tulane University Medical School is closely linked to the success of the Tulane Hospital and we are committed to rebuilding the hospital and continuing its close connection with the medical school.

The reopening of Tulane has also provided access to healthcare services in the downtown area for patients of the Department of Veterans Affairs ("VA"). The inpatient services at the VA Medical Center in downtown New Orleans closed due to flooding from Hurricane Katrina.

Tulane has provided extensive support and assistance to the VA by granting VA physicians with staff privileges and permitting them to treat VA patients at Tulane. Tulane's relationship with the VA has enabled the VA to maintain its presence in downtown New Orleans and enabled VA physicians to continue their practice of medicine. As a result, many veterans requiring inpatient care can receive VA-sponsored care in New Orleans and can avoid traveling to other VA hospitals. We hope that this support will permit the VA to eventually build a new VA hospital in the downtown New Orleans area. This access to medical services in downtown New Orleans is vitally important to the numerous veterans who live in the region that was served by the now-closed VA Medical Center in New Orleans.

II. TULANE IS VITAL TO THE ECONOMIC RECOVERY OF NEW ORLEANS

The continued and increasing presence of hospitals and healthcare services is essential to the ongoing recovery of New Orleans. As the Government Accountability Offices ("GAO") reported in March 2006, "rebuilding the healthcare system will be vital to attract people back to New Orleans to ensure its recovery." Local leaders also have publicly acknowledged the importance of ensuring adequate healthcare services both in the greater New Orleans region, as well as in the downtown medical district in particular. For example, a May 2, 2007, Times-Picayune article quoted Mayor Ray Nagin as saying that "the growth of downtown New Orleans and the stability of the entire region relies on the continued clustered development of medical care and bioscience investment." Even more recently, an article on the state of healthcare in New Orleans that appeared in the New York Times quoted Andy Kopplin, Executive Director of the Louisiana Recovery Authority, as explaining that

the city's healthcare system 'is critical both for the short and long term . . . Short term, having confidence that the healthcare residents need will be

available and accessible is vital for folks who are returning . . . Long term, it's important for employers – and healthcare is a huge business in New Orleans.'

Tulane was the first hospital to reopen in the downtown hospital district, it remains only one of two operational hospitals in downtown New Orleans, and it is the hospital closest to the areas directly impacted by Hurricane Katrina and the flooding in New Orleans. The Tulane University Medical School and our hospital depend upon each other for their ongoing continued success. Together, we provide medical services, education, and employment in the medical district which are essential to bringing people back into the downtown area and to the overall security and recovery of the New Orleans community.

III. HOSPITALS OPERATING IN NEW ORLEANS FACE ESCALATING COSTS ATTRIBUTABLE TO HURRICANE KATRINA

The Coalition hospitals face unique challenges that are directly attributable to the effects of Hurricane Katrina. More than 30% of the City of New Orleans population has not returned since Hurricane Katrina, including an overwhelming number of physicians, nurses and other healthcare professionals. As a result, hospitals operating in New Orleans face a city-wide shortage of doctors, nurses, and other licensed healthcare professionals. This shortage is severely limiting each of the hospitals' capacity to provide care, both in terms of the types of care, since there are fewer specialists available, and the volume of care, since there are fewer physicians and nurses available to perform the specialized services that are required. This shortage has resulted in increased labor costs for contracting with or employing healthcare professionals that have remained, or in attracting professionals back to the area.

According to data collected by the Coalition, salary and contract labor costs have increased nearly \$60 million for the first five months of 2007 when compared to the same five

months of 2005, pre-Katrina. The increase since 2005 in wage rates alone exceeds 21%. The Coalition hospitals are also experiencing a 37% increase in utility costs, which are projected to continue to increase, increased insurance costs of 40%, with less coverage being provided and higher deductibles, and a 35% increase in bad debt.¹ Financing costs, as measured by Interest Expense, have increased 24%. Further, all of the hospitals are reporting difficulty in obtaining sufficient revenue to remain in operation. Because costs continue to escalate, the combined financial statement for the Coalition for the first five months of 2007 reflects a \$70 million difference between income and catastrophic losses when compared to the same time period for 2005. This annualizes to a deterioration in financial results of \$168 million.

Tulane has, individually, experienced increased costs that track those experienced by the Coalition hospitals collectively. Tulane's total operating revenue for the first five months of this year has decreased by 6.2%, primarily as a result of diminished volumes, when compared with the same time period for 2005. This loss of revenue is compounded by the increase in costs that Tulane has experienced during the same time periods. The most significant of these expenses has been labor costs resulting from the shortage of physicians and other medical professionals.

Many healthcare professionals never returned to New Orleans after Hurricane Katrina and the area continues to experience a migration of providers out of the area. Indeed, the Orleans Parish Medical Society has reported that more than 200 of its 650 members have left New Orleans. As a result, Tulane must employ more physicians than it did prior to Hurricane Katrina. Specifically, in May 2005, Tulane only employed twenty physicians. Currently, fifty-two physicians are directly employed by Tulane. In order to retain physicians in the area and assure critical healthcare services are available to the community, we have found it essential to

¹ Increases are measured based on the respective "cost per adjusted patient day," which is a standard metric in the hospital industry.

employ physicians in order to ensure them a stable income. Because we have more than doubled the number of our employed physicians, our labor expenses have similarly escalated. Our salary expenses for the first five months of 2007 have increased by 15.7% compared to the same time period for 2005 despite having significantly fewer employees on our payroll. Adjusted for the decline in volume, wage costs have increased by 57%.

We are also having problems attracting other healthcare professional staff and support staff to the New Orleans area. Affordable and available housing is a critical issue with which we have to deal. We are incurring additional expenses to recruit employees to the area, including providing registered nurses and allied health professionals with the option of either three months of free rent or paying their relocation expenses. Prior to Hurricane Katrina, this was not an expense that we had to bear. Despite our increased recruiting benefits, we are still facing a staffing shortage while incurring significantly more expenses for the contract staff. For example, our labor costs for contract nurses for the first five months of 2007 have increased more than 73% compared to 2005. Adjusted for volume, the increase is 136%.

In our experience, the patient care we currently provide is more expensive than the average cost of care pre-Katrina. Many who remained in New Orleans are uninsured, unemployed and have no means for paying for care. In addition, the shortage of available physicians and nurses has resulted in longer waiting times for appointments, and in many cases patients have been unable to obtain an appointment. As a result, more patients, even those with insurance, are relying on the emergency room for their primary care treatment.

Tulane's other expenses have also increased. Since pre-Katrina operations in 2005, Tulane's utility expenses have increased 34%, insurance expenses have increased 33% and interest expenses have increased by over one thousand percent. In total, Tulane experienced a

\$24 million net loss² from total operations from the first five months of 2007. Hospital operations with these kinds of losses are simply not sustainable.

IV. CONGRESSIONAL ACTION IS REQUIRED TO ENSURE THE AVAILABILITY OF HEALTHCARE SERVICES IN NEW ORLEANS

A vibrant healthcare community is a critical component for the short and long term success of New Orleans' recovery from the devastating impact of Hurricane Katrina. However, the healthcare community is simply not able to sustain its operation when it is experiencing such staggering losses. The problems that the Coalition hospitals are facing are likely to be compounded if, or when, any individual hospital is no longer able to continue to operate in New Orleans. The challenges facing the Coalition hospitals are unique, and dwarf those faced by any other hospital in any other area of the country. As a result, the federal government should take steps that directly address the challenges faced by the Coalition hospitals. On behalf of Tulane and the other four systems that are represented on this panel, I respectfully request that this Committee consider options to support vital health services for the next three to five years in order to afford the New Orleans healthcare sector an opportunity to recover sufficiently to support a revitalization of this city. Specifically, I request that the Committee: (i) provide additional funding either by redirecting existing appropriation dollars for 2007 – 2009 to New Orleans or identifying other revenue sources, to offset losses attributable to post-Katrina expenses; (ii) continue the current Louisiana Medicaid uncompensated care costs ("UCC") formula, of which approximately 70% is funded by the federal government; and (iii) eliminate,

² This excludes an estimated business interruption recovery of \$2.5 million, and a one-time CMS wage index adjustment payment of \$3.4 million.

for three years, the three year rolling average component for graduate Medical education payments.

Thank you, Mr. Chairman and members of the Committee for your time and attention. I will be happy to respond to any questions.